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Japanese-Soviet Summit Yields No Accord On Northern Territories

After months of anticipation and recent weeks of shuttle diplomacy the April 16-19 summit in Tokyo between Soviet President Mikhail Gorbachev and Prime Minister Toshiki Kaifu came to an anticlimatic end with the two countries still at an impasse over Japan's claim to four Soviet-held islands northeast of Hokkaido. While the two leaders signed 15 agreements ranging from trade promotion to cultural exchanges, Messrs. Gorbachev and Kaifu were unable to use their marathon discussions to break the Northern Territories logjam and, in turn, pave the way toward conclusion of a peace treaty finally resolving World War II. Mr. Gorbachev optimistically forecast that Japan and the Soviet Union now can "take the first step [toward] a new relationship." Deep-rooted political and economic differences, however, may continue to impede progress in bilateral relations.

Both leaders fell short of accomplishing what they had intended. Mr. Kaifu wanted to secure return of the northern islands; Mr. Gorbachev sought a substantial commitment of Japanese economic assistance to facilitate perestroika, the opening of the Soviet Union to a more market-oriented, democratic society. After signing a joint communique at the resplendent Akasaka guesthouse

marked the beginning of a new dialogue between Japan and the Soviet Union rather than a failure to resolve past conflicts.

Foreign Minister Taro Nakayama is expected to travel to Moscow in July to set the stage for a visit by Mr. Kaifu, probably in late summer or early fall. Some political analysts have proposed that the real success or failure of the Tokyo meeting will not be known until the two leaders meet again on Soviet turf. Lurking in the background for both leaders, however, are domestic threats to their tenure in office. Mr. Gorbachev is faced with secessionist pressures in the Baltic states and other domestic political minefields; if his Japan trip is viewed by Soviet power brokers as a misstep in his area of strength -- foreign policy -- he may be less willing to engage in bridge-building in future meetings. For that matter, Mr. Gorbachev may not even be hosting the next meeting. Likewise on the Japanese side. Most political commentators believe that Mr. Kaifu strengthened his hold on the premiership by standing firm with the Soviet leader. In the coming months, though, the prime minister's ruling Liberal Democratic Party colleagues may decide that a leader who has a strong domestic political base and is seen as more decisive would be better able to affect progress on Japanese-Soviet issues.

Barbara Wanner

Japan's Trade Surplus Rises In First Quarter

Winning streaks inevitably are broken, a condition also applicable to trends in Japan's trade imbalance. Those on both sides of the Pacific who felt a sense of triumph after seven straight quarters of a declining surplus in Japan's customs-clearance trade figures most likely are disappointed that the dollar version of this measure registered a 19.8 percent increase in the first three months of 1991 compared to 1990's initial quarter (see Table). While those hoping for a smaller surplus may have lost the latest round, their win-loss record still is pretty good in recent years; the latest figure represented the second-smallest first quarter surplus since 1986. Broader measures, such as the current account statistic, generally have shown more dramatic drops in Japan's external imbalance since peaking in the 1985-87 period than have the customs-clearance data, which cover only goods. (For details of various measures of Japan's external imbalance and comparisons with corresponding U.S. figures, see JEI Report No. 15A, April 19, 1991.)

As usual, the January-March 1991 outcome represented the net result of a number of conflicting trends. Most important was the appreciation of the yen; the Japanese currency was about 9.5 percent stronger against the dollar (using the average conversion rate for exports and imports) than a year earlier. This change, coupled with different pricing patterns among exporters and importers, appears to explain a substantial portion of the results. Exporters, for example, use the dollar as well as other currencies to price their products in foreign markets. (See JEI Report No. 38A, October 5, 1990 for details on currencies used to price exports and imports in Japan.) As the dollar fell in the first quarter, exports priced in yen or other currencies became more expensive in dollar terms. Importers, however, are far more likely to sign dollar contracts than are exporters; hence, changes in the value of the yen against the dollar did not lead to comparable changes in import values expressed in dollars. Since import and export volumes changed little relative to changes in

Japan's Total Trade in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	$209,151	19.1%	$126,408	-2.4%	$82,743
1987	229,221	9.6	149,515	18.3	79,706
1988	264,917	15.6	187,354	25.3	77,563
1989	275,175	3.9	210,847	12.5	64,328
1990	286,948	4.3	234,799	11.4	52,149
1989: I	68,227	13.2	51,142	14.9	17,085
II	67,602	3.7	51,292	8.5	16,310
III	69,595	3.6	53,048	12.3	16,547
IV	69,751	-3.5	55,364	14.6	14,387
1990: I	66,705	-2.2	54,383	6.3	12,322
II	67,232	-0.5	53,954	5.2	13,278
III	72,189	3.7	56,547	6.6	15,642
IV	80,822	15.9	69,914	26.3	10,908
1991: I (p)	76,523	14.7	61,767	13.6	14,756

Japan's Total Trade in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	Y35,290	-15.9%	Y21,551	-30.7%	Y13,739
1987	33,315	-5.6	21,737	0.9	11,578
1988	33,939	1.9	24,006	10.4	9,933
1989	37,823	11.4	28,979	20.7	8,844
1990	41,457	9.6	33,855	16.8	7,602
1989: I	8,705	12.9	6,516	14.6	2,189
II	9,222	13.0	6,997	18.2	2,225
III	9,911	11.0	7,547	20.2	2,363
IV	9,985	9.3	7,919	29.4	2,067
1990: I	9,766	12.2	7,941	21.9	1,825
II	10,449	13.3	8,392	19.9	2,057
III	10,651	7.5	8,364	10.8	2,287
IV	10,592	6.1	9,159	15.7	1,433
1991: I (p)	10,208	4.5	8,243	3.8	1,965

Japan's Trade with the United States in Dollar Terms

(in millions of dollars)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	$80,456	23.3%	$29,054	12.6%	$51,401
1987	83,580	3.9	31,491	8.4	52,090
1988	89,634	7.2	42,037	33.5	47,597
1989	93,189	4.0	48,246	14.8	44,943
1990	90,322	-3.1	52,369	8.5	37,953
1989: I	22,726	14.4	11,599	15.0	11,127
II	22,997	6.4	12,064	15.4	10,933
III	24,117	4.6	12,462	16.8	11,655
IV	23,347	-7.0	12,120	12.0	11,227
1990: I	21,661	-4.7	12,753	9.9	8,908
II	20,938	-9.0	12,861	6.6	8,077
III	22,933	-4.9	12,729	2.1	10,204
IV	24,790	6.2	14,025	15.7	10,765
1991: I (p)	22,304	3.0	13,237	3.8	9,067

Japan's Trade with the United States in Yen Terms

(in billions of yen)

	Exports (f.o.b.)	Change Over Year-Earlier Period	Imports (c.i.f.)	Change Over Year-Earlier Period	Trade Balance
1986	Y13,564	-13.0%	Y4,918	-20.9%	Y8,646
1987	12,148	-10.4	4,582	-6.8	7,566
1988	11,487	-5.4	5,388	17.6	6,099
1989	12,816	11.6	6,632	23.1	6,184
1990	13,057	1.9	7,586	14.4	5,471
1989: I	2,899	14.1	1,478	14.6	1,421
II	3,139	16.0	1,648	25.9	1,491
III	3,436	12.2	1,773	25.0	1,663
IV	3,342	5.2	1,733	26.4	1,609
1990: I	3,171	9.4	1,862	26.0	1,309
II	3,254	3.7	2,000	21.4	1,254
III	3,384	-1.5	1,885	6.3	1,498
IV	3,249	-2.8	1,838	6.1	1,411
1991: I (p)	2,978	-6.1	1,765	-5.2	1,213

currency values and since the volume of exports remains larger than that of imports, the dollar-denominated trade surplus showed an increase.

Similar reasoning also can be applied to the imbalance as expressed in yen. When measured using the Japanese currency, exports rose 4.5 percent in this year's first quarter compared to a 3.8 percent rise in imports. However, the volume of exports, which increased 5.9 percent, expanded more slowly than real imports, which were up 6.3 percent. Because the volume of both exports and imports went up more than their value expressed in yen, the price levels of each fell as stated in yen, with imports showing the larger drop. Exports exhibited relatively little change in value because they are priced in a variety of currencies, but import values expressed in yen showed a sharp drop because they usually are converted from dollars. Given the comparatively modest changes in volume terms, exports that were relatively stable in price combined with cheaper imports to produce a larger yen-based surplus.

Economic conditions at home and abroad during the first quarter also may have been a contributing factor to Japan's larger trade surplus. As the U.S. recession deepened and the price of imported oil rose above year-earlier levels, the surplus got a downward nudge from smaller export and larger import values than otherwise. At the same time, though, the Japanese economy's weakness during the first three months of 1991 as a consequence of uncertainty about the strength of export markets and the price of oil plus concerns about high domestic interest rates may have kept imports below levels they otherwise would have reached. Perhaps reflecting particularly weak economic conditions in the United States, the bilateral surplus increased less than Japan's worldwide imbalance. The surplus rose a scant 1.8 percent in dollars while actually declining 7.3 percent in yen terms.

The economies of Japan, the United States and other major trading nations are likely to figure even more prominently in the direction of international trade imbalances in coming months. Generally speaking, the weaker the economy the better its trade performance vis-a-vis its partners is likely to be. For example, in the not unlikely event that the Japanese economy remains sluggish while the U.S. economy recovers, Japan's trade surplus could widen this year, suggesting that the first-quarter results could be a harbinger. Even if the U.S. economy stays in the doldrums, rising exports from Japan to foreign markets outside the United States could lift the overall Japanese surplus. Those who would like to see further reductions in the surplus pin their hopes on the renewed strength of the Japanese economy, a development that would spur increased imports.

Douglas Ostrom

Spring Wage Drive Lags

This year's annual nationwide spring wage talks, or shunto, yielded few surprises, removing one cloud that might have darkened the country's economic outlook. As of April 15 bargaining had achieved for the average Japanese worker a 5.63 percent salary hike, adding Y14,515 ($107.52 at Y135=$1.00) to his or her monthly wages, which now average Y257,871 ($1,910.16). Last year's average increase was 5.94 percent. This is the first year since 1987 that the average wage increase has not surpassed the previous year's, a fact that domestic analysts welcomed. They argued that this moderate increase would reassure an

inflation-sensitive central bank while providing a boost to workers' real incomes sufficient to keep consumer spending firm. Workers also made some headway on nonmonetary issues, such as a decrease in working hours, but employers successfully used the intensifying level of international competition to stave off large concessions.

According to data gathered by Nihon Keizai Shimbun, workers in only two industries managed to win bigger pay hikes in 1991 than last year (see Table). Truckers and other land transportation workers bargained for a 5.61 percent raise versus 5.34 percent in 1990, while their seaborne counterparts won an even thinner 0.08 percentage point increase over last year's 6.10 percent mark. At the other end of the spectrum workers in the information and software industry suffered a 1.36 point reduction in their 1991 wage gain -- the sharpest fall from last year's results -- but still won an above-average raise of 6.23 percent. The leisure industry led the way this year, giving its employees an average 7.12 percent hike, while the warehousing sector brought up the rear at 4.03 percent.

Many Japanese analysts had fretted that despite continuing economic growth unrealistic wage gains would shorten the current expansion's life span. The link between corporate profits and wage hikes was even more tenuous than in previous years. Toyota Motor Corp., Japan's largest motor vehicle maker and most profitable company, kept its unions to an even smaller hike this year, 5.52 percent, than last year (5.93 percent). Although the management of Honda Motor Co., Ltd. used the firm's current difficulties to bargain down wage gains from last year's 6.17 percent level, the result remained above Toyota's at 5.65 percent. Nippon Telegraph and Telephone Corp., which sets the pace in the fast-growing communications industry, held its wage increase to 6.03 percent compared to 6.37 percent last year. Even though booming demand might be expected to loosen the purse strings, steel companies managed to win pay concessions from workers.

Following a now traditional pattern, workers in nonmanufacturing jobs received bigger increases on average than people employed in the manufacturing sector -- 5.95 percent versus 5.47 percent. The difference probably is understated since data from the banking, insurance, securities, and consumer credit and leasing industries were not reported in the survey. The compensation disparity between the financial and the manufacturing sectors now is so great that an increasing number of science and engineering graduates are seeking entry-level positions at nonmanufacturing firms. According to the Ministry of Education, 62.6 percent of all engineering graduates from government-funded schools chose manufacturing careers in 1987 but only 56.7 percent did so in 1990. Over the same period graduates with engineering degrees signed up with financial institutions in greater numbers, rising from 4.3 percent to 10.5 percent. Many analysts agree that the lure of big paychecks in the financial sector is attracting more of the top science and engineering graduates.

To counter this trend manufacturers are improving fringe benefits, such as company housing and recreational facilities. They also are trying to rid themselves of an image as dirty and dangerous workplaces by investing heavily in robotics and worker safety. A major battleground, however, has developed over the average number of hours employees work a year. The fight is taking place on two fronts: a reduction in normal and overtime hours as well as an expansion in the number of paid holidays. While many leading Japanese firms

Midterm (April 15) Results of 1991 Spring Wage Negotiations

Industry	1990 (actual) Amount	1990 (actual) Change	1991 (preliminary) Amount	1991 (preliminary) Change	Monthly Wage	Average Worker Age (years)	Number of Firms
Manufacturing	¥13,885	5.79%	¥13,610	5.47%	¥249,219	35.1	774
Food	13,263	5.29	13,571	5.24	258,917	36.4	55
Textiles	13,891	5.88	13,509	5.53	243,734	37.0	48
Pulp and Paper	13,833	5.58	13,629	5.33	256,560	38.8	21
Chemicals	15,507	6.00	15,113	5.66	267,787	36.5	66
Pharmaceuticals	13,697	5.18	13,999	5.15	274,752	33.2	14
Petroleum	12,959	5.50	12,699	5.17	243,918	28.9	9
Rubber	13,950	5.50	13,531	5.17	264,201	39.7	14
Mineral Products	14,410	5.87	14,209	5.62	252,552	37.2	17
Steel	12,090	4.83	11,601	4.46	260,686	35.5	36
Nonferrous Metals	13,354	5.88	13,169	5.61	235,385	36.2	44
Nonelectric Machinery	14,451	6.02	14,169	5.69	249,634	36.7	143
Electric Machinery	13,685	5.95	13,350	5.58	238,949	33.4	126
Shipbuilding	13,896	5.41	13,947	5.22	267,878	40.4	10
Automotive	14,016	5.95	13,660	5.57	245,240	34.8	90
Other Transport	14,187	5.77	13,888	5.52	251,534	38.2	10
Precision Equipment	15,792	6.02	15,315	5.72	267,678	33.7	33
Business Machines	17,151	6.24	15,840	5.80	274,158	31.5	7
Printing	13,248	6.42	12,114	5.69	212,435	31.8	5
Other	14,506	6.00	14,411	5.86	247,739	35.9	26
Nonmanufacturing	16,294	6.24	16,308	5.95	275,028	36.3	249
Fishing	12,897	5.14	12,201	4.78	255,564	33.5	8
Mining	12,699	5.27	12,745	5.09	249,554	31.0	2
Construction	18,106	6.40	18,003	6.07	294,986	37.2	29
Real Estate	13,475	6.13	10,696	5.76	184,889	30.2	3
Commerce	14,653	6.75	14,211	6.33	224,387	32.3	24
Large Retailers	14,834	6.65	15,092	6.48	232,331	30.8	35
Small Retailers	14,363	6.92	14,177	6.55	216,637	27.7	9
Rail and Bus	16,222	6.17	16,280	5.93	274,445	39.9	46
Ground Transport	13,041	5.34	14,316	5.61	254,701	35.2	8
Sea Transport	13,255	6.10	13,668	6.18	220,690	35.5	2
Air Transport	17,841	5.05	17,084	4.60	388,965	27.9	5
Warehouse	11,460	4.80	9,744	4.03	242,792	33.6	10
Communications	16,940	6.35	16,956	6.02	281,407	38.9	2
Electricity	15,900	5.69	15,600	5.30	293,635	33.7	10
Gas	15,624	5.77	15,310	5.46	280,386	36.5	9
Hotel and Travel	17,353	6.70	18,388	6.45	283,199	33.5	12
Other Leisure	19,133	7.48	19,077	7.12	267,235	28.4	2
Mass Media and Advertising	24,432	6.66	23,833	6.24	388,862	38.5	20
Information and Software	16,290	7.59	14,176	6.23	227,134	28.6	8
Other	14,893	5.87	15,152	5.79	262,879	35.9	5
Average	14,702	5.94	14,515	5.63	257,871	35.5	1,023

Source: Nihon Keizai Shimbun, April 19, 1991.

have agreed to the Ministry of Labor's lofty goal of reducing total annual working hours from the current level of between 2,100 to 2,200 to a 1993 range of 1,800 to 1,900 hours, few concessions were won in this year's talks. Although NTT set a limit on overtime hours of 450 a year, the impact will be limited since the average overtime logged by NTT employees is only 147 hours. Other major firms fended off commitments to reduce working hours. Instead, many granted more liberal policies on paid holidays. Several firms, for example, agreed that whenever a holiday falls on a Saturday they would make the preceding Friday a paid day off. Other companies said they will institute a policy of mandatory holidays for birthdays and other special occasions. Mandatory time-off policies are expected to address the disparity between the number of paid holidays made available and the number actually taken; electric utility workers, for example, take off an average of 11.5 days out of a possible 20.

From the standpoint of the entire economy 1991's shunto results are good news. The Bank of Japan had hinted that it would consider excessive wage hikes a spur to inflation. Many businesses already suffering from BOJ's tight monetary policy took this threat seriously and hardened their positions. At the same time statistics showing that overall Japanese economic growth is slowing served as a floor preventing management from being too stingy on wage gains. Consumer spending accounts for well over half of economic activity, and a solid real wage gain will help keep the strings on pocketbooks loose.

Jon Choy

Eastern Europe Poses Dilemma For Japan

Japan took another step toward broadening the scope of its role as the world's leading donor of development assistance when Tokyo announced April 15 that it would provide roughly Y850 million ($6.3 million at Y135=$1.00) to establish a fund for Eastern Europe within the European Bank for Reconstruction and Development. Finance Minister Ryutaro Hashimoto told the first meeting of the EBRD that the proposed Japan-Europe Cooperation Fund would support the new institution's efforts to bolster economic reforms in the eastern bloc. Until recently Japan had little political or commercial interaction with Eastern Europe, but within the past year or so it has made a series of commitments to the region. One of these commitments, however, has been the cause of a dispute over debt reduction; the debate over this issue has shed light on Tokyo's attitudes toward development loans.

Established last year with the backing of more than 40 nations and agencies, the EBRD's $12 billion in capital was slated to come mainly from the European Community, with Japan and the United States both contributing 8.5 percent, or about $1 billion each. At the EBRD's mid-April inaugural meeting in London Mr. Hashimoto confirmed that Tokyo is willing to extend active financial backing to Eastern Europe through the bank. Referring to Japan's own reconstruction after World War II, Mr. Hashimoto said his country is certain Eastern Europe can achieve economic stability through political and economic reforms with the support of the development bank.

The main objectives of the proposed Japan-Europe Cooperation Fund are to scout out projects for EBRD funding and to develop human resources in Eastern Europe. Prior to the EBRD meeting Japanese officials characterized the fund as

NOTE

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Entire Issue